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SBC TO AT&T: Get Out Of Our Game, Pronto!(Company Business and Marketing)

Author/s: Brian Krebs
 Issue: August 29, 2000

SBC Communications [NYSE: SBC] lashed out at AT&T Corp. [NYSE: T] today, calling the cable-and-phone giant's recent filing with federal regulators a blatant effort to forestall SBC's foray into the market for high-speed Internet services.

As a condition of its recent acquisition of incumbent local telephone company Ameritech, SBC agreed to deploy its broadband digital subscriber line (DSL) services through smaller competing carriers. Several weeks ago, however, SBC said that after negotiations with competing carriers, it was unanimously agreed that the company's plan for allocating DSL equipment to competing carriers would not work.

As a result, SBC asked the Federal Communications Commission (FCC) to approve a plan to allow its own affiliate, ASI, to deploy the budding DSL service under a plan dubbed "Project Pronto."

The \$6 billion project is aimed at reducing current distance limitations on DSL customers, who often must be located within a few miles of the providers' central offices to be eligible for service. SBC has said its plan would push the capabilities now housed in central offices closer to consumers, making millions of new consumers eligible for DSL service.

But last week, AT&T weighed in on the issue, and in a five-page filing asked the FCC to consider whether SBC's latest proposal really fulfils the promise inherent in its merger concessions. In that filing, AT&T said the commission was inconsistent at enforcing measures in the Telecom Act of 1996 that require incumbent phone companies like SBC to open all of their "advanced" networks to competitors.

"Project Pronto was designed on a unitary basis to meet SBC's own needs, and not the needs of non-affiliates," AT&T said in its filing.

Today, SBC shot back at AT&T, calling the company's comments inappropriate because AT&T, as the nation's No. 1 cable provider, is not subject to the same "open-access" regulations to which telecom DSL providers must adhere.

"Now, at the last minute, AT&T is unduly trying to delay our deployment of DSL that will compete directly with cable modems," said SBC spokeswoman Priscilla Hill-Ardoin. "This is especially disingenuous on AT&T's part, since AT&T will primarily use cable facilities, not DSL technology, to provide high-speed access for its customers."

Hill-Ardoin said AT&T's objections were clear example of how "asymmetric regulation" can be abused in the regulatory process.

"Clearly AT&T's strategy is to abuse the regulatory process to delay SBC's market entry of DSL and impose additional costs on deploying the service," she said. "By attempting to keep SBC stalled as a result of regulations, AT&T would prohibit millions of American consumers from receiving DSL service."

But AT&T lobbed one back today, accusing SBC of attempting to avoid its legal obligations under the Telecom Act.

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"Old monopoly ways are dying hard for SBC and, unfortunately, consumers are paying the price," said AT&T General Counsel Jim Cicconi.

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SBC to scramble for customers after summer lull

By [Corey Grice](#)
Staff Writer, CNET News.com
August 28, 2000, 10:45 a.m. PT

SBC Communications will have to scramble to meet its target goals after a summertime setback slowed installations of its high-speed Internet service.

The local phone giant recently revealed that the creation of a new data subsidiary has tapered installations of digital subscriber lines (DSL) but said the declines won't derail its year-end goal of 1 million high-speed Internet subscribers.

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Equipment shortages, which have been resolved, also slowed deployment," the company said in the letter.

SBC serves local phone, wireless, long-distance and Internet access via its Pacific Bell, Southwestern Bell, Nevada Bell and Ameritech units in 13 states. More than 16 million homes and businesses have access to the company's DSL services, and it plans to be capable of reaching 18 million homes by the end of the year.

According to a recent research report from investment bank Goldman Sachs, SBC reduced its installation rate to slightly more than 1,000 customers per day, down from a peak of about 4,000 installations per day in May.

Still, Goldman is confident that SBC will meet its goal of 1 million by the end of the year.

"We doubt the company will miss it by much, if it misses it at all," Goldman analyst Frank Governali wrote.

A representative from SBC said the company has made great efforts to quickly launch DSL and continues to believe it will reach 1 million customers because of a variety of marketing and promotional plans.

The company has increased its marketing efforts in the mid-Western Ameritech region, has a free PC promotion with Compaq when customers sign up for a two-year DSL commitment, and is bundling DSL with long-distance service in Texas.

The company last week also announced plans to install technology that will allow it to circumvent DSL's

SBC, under a plan called Project Pronto, is spending \$6 billion to offer high-speed, or "broadband," Internet service via DSL technology. But as of mid-August the company had only 435,000 customers, far fewer than the 1 million people it expects to have signed up by the end of December.

The challenge of meeting broadband subscriber goals is not solely SBC's. Dozens of high-speed Internet access providers are racing to sign up customers quickly. But costly and difficult network upgrades, cumbersome installation processes and modem shortages have affected many providers.

Excite@Home and Road Runner, the two largest cable-modem services, both topped significant milestones last week. But Excite@Home, having promised Wall Street 3 million subscribers by year's end, also has plenty of work left to accomplish this fall.

SBC, in a recent letter updating investors, said the creation of a subsidiary contributed to the installation slowdown. Forming the subsidiary was required as a result of SBC's takeover of Ameritech.

"In the third quarter, SBC reduced its installation rate as it transitioned its DSL activities to its newly established data subsidiary, SBC Advanced Solutions.



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limitation of serving customers more than three miles from the phone company switching office. In addition, SBC has tripled its number of installation technicians this year, a spokesman said.

"A small percentage of our central offices needed to add more capacity. That's pretty much behind us now," said SBC spokesman Shawn Dainas. "There's been strong demand. Everyone is facing that. That being said, we're working with our vendors to get the service to customers as quickly as possible and to add capacity when necessary."

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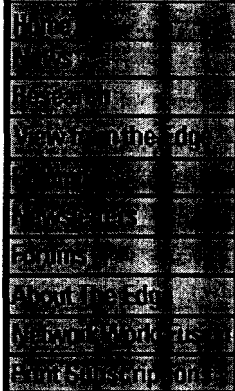
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Gov't to review CLEC access to Project Pronto

FCC says it's re-examining collocation, local-loop rules for DSL
services provided off neighborhood terminals.

By DAVID ROHDE

The Edge, 08/14/00

Some competitive local exchange carriers are breathing a sigh of relief after the government late last week agreed to review the way SBC Communications is rolling out mass-market DSL under the name Project Pronto.

In a report released Thursday night, the Federal Communications Commission reopened its previously settled rules for how Bell companies must provide switch collocation and local-loop unbundling.

The FCC said it's doing so because "some incumbent local exchange carriers" have decided to build fiber partway between their central offices and residential neighborhoods, and then offer DSL service over the remaining copper loop.

Those plans raise questions as to whether CLECs have room to put DSL equipment in the small neighborhood remote terminals, according to the FCC. It also puts in question whether CLECs will be able to continue to rent the entire copper loop from the central office to the customer premises if the Bell company no longer needs it, the FCC said.

Although the FCC only cited SBC's Project Pronto in a footnote, it was widely understood that the move is in reaction to dozens of pleas by CLECs to put Pronto under the microscope. The \$6 billion Project Pronto is by far the largest telco move to provision DSL from fiber-fed neighborhood terminals. SBC is promising to cover 80% of its 13-state territory with this kind of asymmetrical DSL service over the next three years.

The FCC requested public comment on:

- Whether incumbent telcos should tell competitors if they plan to retire central office-to-premises copper loops, and who should pay for loop maintenance if only the competitors want to use it.
- Whether CLECs should have the opportunity to buy the copper plant from the telco before it's decommissioned.
- Whether it's feasible for CLECs to install DSL access multiplexers in neighborhood terminals, or whether competitors should be allowed to rent the telco's own remote-terminal DSLAM ports. That's particularly key because the FCC last year eliminated DSLAMs ports from the list of central-office equipment telcos must rent, though they must provide collocation for CLECs' own DSLAMs.
- Whether competitors should have access to individual optical



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wavelengths if dense wave division multiplexing systems are placed on the fiber portion of the local loop.

- Whether telcos should provide multiple ATM classes of service on the fiber backhaul from DSL neighborhood terminals to the central office. That's another key issue because SBC has only promised ATM's lowest service class, called available bit rate.

The FCC did not tip its hand on how it would rule on these issues, saying only it wanted to receive comments by Sept. 18. But the Association for Local Telecommunications Services, a CLEC trade group, took heart. "We're confident the FCC will take the necessary action to guarantee CLEC access" to telco remote-terminal facilities, ALTS general counsel Jonathan Askin said in a statement.

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AMERITECH RELEASE: Aug 09, 2000

Ameritech Announces DSL Service Now Available for More Than 100,000 Columbus Homes, Businesses

Say Hello to Super Fast Internet: Fueled by Project Pronto, Company Brings DSL Broadband Service to Columbus Neighborhoods

With the progress of the ambitious Project Pronto initiative, the future of the Internet is now available to 100,000 Columbus area residents and businesses, Ameritech announced today. The company's announcement heralds the widespread rollout of Ameritech's high-speed, broadband Internet service in Ohio.

From Dublin to New Albany, Upper Arlington to Westerville and Worthington, a largely increased number of Columbus area residents now have DSL service available to them. Citing its commitment to bringing high-speed Internet access to its customers throughout Ohio, Ameritech today released the current list of neighborhoods and towns in which DSL is partially available. The list will continue to grow, reaching nearly 80% of SBC's customers by 2002. Many customers in these communities can now subscribe to SpeedPath, Ameritech.net's high-speed Internet access service powered by Digital Subscriber Line (DSL) technology.

"Ameritech understands the importance of reliable, high-speed Internet access to Ohio residents and businesses," said Jason Few, vice president of SBC Broadband Communications. "We're making a concerted effort to make DSL services available as fast as possible on a wide-spread basis. City and suburban customers now have access to DSL services, and we expect to make service available to many more residential and business customers this year."

DSL today enables Ameritech customers to access the Internet or corporate networks at speeds up to 50 times faster than conventional traditional 28.8 kilobits per seconds (Kbps) analog modems. DSL also is an "always available" connection that eliminates the need for dial-ups.

The DSL deployment is part of Project Pronto, a \$6 billion initiative that will transform Ameritech's parent company, SBC Communications, Inc., into America's largest single broadband provider. Project Pronto will make SBC's DSL service available to approximately 77 million people by 2002 and will dramatically increase the speed of DSL service.

"Wide-spread DSL availability in the Columbus area is the most visible benefit of Project Pronto," said Few. "Pronto also is an important long-term investment in the states we serve. With the technology we're making available, we're ensuring our communities can access advanced services as they're introduced – giving our customers continual access to the leading edge of next-generation products and services."

To receive service today, the distance from customers' homes to a DSL-equipped central office must be no longer than 12,000 feet, or 2.2 miles, and must meet certain transmission criteria. As Project Pronto moves forward, Ameritech is deploying fiber deeper into neighborhoods and installing neighborhood broadband gateways to bring capabilities now housed in central offices closer to customers to virtually eliminate the distance limitation in neighborhoods where the gateways are deployed.

Currently, Ameritech.net's SpeedPath 768 service provides downstream connection speeds up to 768 kilobits per second – 25 times faster than traditional 28.8 Kbps analog modems – and an upload connection speed up to 128 Kbps. Through a special promotion by Ameritech.net, SpeedPath 768 is available for \$39.95 per month with free modem, network interface card and installation² with a one-year term commitment.

For even higher speed, Ameritech offers additional SpeedPath options with downstream connection speeds up to 1.5 megabits per second – 50 times faster than a 28.8 Kbps modem – and upstream connections speeds up to 256 Kbps. Downstream connection speeds vary, depending on a customer's distance from the central office and other factors.

Residential consumers in Columbus can call 1-800-910-4369 for more information. Business customers can call 1-800-TEAM-DATA (832-6328) for more information. Residential and business customers are also encouraged to visit www.ameritech.net for more information. Web site visitors can enter their area code and prefix to determine if a DSL-equipped central office serves them.

¹ SpeedPath service is provided by Ameritech Corp.'s ISP subsidiary, Ameritech Interactive Media Services.

² Additional charges for line conditioning may apply. A charge applies for early termination.

Ameritech is the premier provider of communications services in the Upper Midwest, with nearly 20 million business and residential customers – more than 22 million access lines – across Illinois, Indiana, Michigan, Ohio and Wisconsin. It is a company of SBC Communications Inc. (www.sbc.com) is a global communications leader. Through its subsidiaries' trusted brands - Southwestern Bell, Ameritech, Pacific Bell, SBC Telecom, Nevada Bell, SNET and Cellular One - and world-class network, SBC's subsidiaries provide local and long-distance phone service, wireless and data communications, paging, high-speed Internet access and messaging, cable and satellite television, security services and telecommunications equipment, as well as directory advertising and publishing. In the United States, the company currently has 61.2 million access lines, 12.2 million wireless customers and is undertaking a national expansion program that will bring SBC service to an additional 30 markets. Internationally, SBC has telecommunications investments in more than 20 countries. With approximately 219,000 employees, SBC is the 13th-largest employer in the U.S., with annual revenues that rank it among the largest Fortune 500 companies.

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SBC Takes the Lead in DSL

SBC Communications announced a major broadband network initiative last year, pledging to spend \$6 billion over three years to expand the availability of high-speed Internet access to its customers. So far, the company is meeting its goals by marketing its DSL services aggressively and adding customers at a rapid pace. Investors will need to keep their eyes on the company's finances going forward, however, to see if it all pays off.

By [Chris Rugaber](#) (TMF RFK)
August 7, 2000

When you think of high-speed Internet access, you probably think of companies such as Excite@Home ([Nasdaq: ATHM](#)), the leading cable broadband provider, or other cable-Internet companies such as Time Warner's ([NYSE: TWX](#)) Road Runner. But SBC Communications' ([NYSE: SBC](#)) recent second-quarter report makes it clear that this Regional Bell Operating Company (RBOC) is moving pretty quickly into broadband Internet itself.

In fact, SBC is the nation's leading provider of digital subscriber line (DSL) services. DSL technology enables high-speed Internet access over phone lines and provides always-on, very fast Internet connections. Users can surf the Web and make phone calls simultaneously. Sounds great, right?

Overcoming DSL's challenges

However, the technology faces some challenges. Providing DSL service requires upgrades to the switching equipment in most telecom companies' local central offices (COs), which connect customers to longer-haul networks. In addition, transmission speeds attenuate with distance, so customers must live within 3.5 miles or so of a CO in order to actually receive the promised download speeds (roughly 1.5 Mbps, about 30 times faster than the typical 56Kbps modem).

Finally, the RBOCs have to get on board for DSL to become widely available, since Internet service providers and other telecom companies generally don't have access to the so-called "last mile" of phone lines that actually connect to residential customers and businesses. And on the whole, RBOCs aren't considered innovative or aggressive marketers, coming from a monopoly background in local phone service.

Nevertheless, SBC is surmounting these obstacles. On the technical end, the company bit the bullet last year by launching "Project Pronto," a \$6 billion effort to expand DSL availability throughout its service area, which now encompasses 13 states. Project Pronto involves adding the necessary DSL equipment to 1,400 of the company's COs, and confronting DSL's distance limitations by installing or upgrading 25,000 "neighborhood broadband gateways" that extend DSL's reach. These efforts should make DSL available to 77 million people, or 80% of SBC's customers, by the end of 2002. For more on "Project Pronto," check out this recent [Fortune](#) article.

On the marketing front, the company is offering PC/DSL packages with companies such as Prodigy and Compaq ([NYSE: CPQ](#)) that are a "break... from traditional RBOC marketing and sales strategies," according to a recent Goldman Sachs report. The company is also on the forefront of DSL "self-installs," a critical step towards widespread adoption of broadband Internet access. Instead of having to "roll a truck" to expensively and slowly hook-up each new customer, self-install enables customers to do the work. In addition, this makes it easier to promote DSL in retail outlets, by selling everything a customer needs in one place.

Excellent second-quarter results

So far, the company's initiatives are bearing fruit. SBC has upgraded 75% of its COs, and is signing up DSL subscribers at a blistering pace. In the second quarter of this year, SBC added 198,000 DSL subscribers, more than double its first quarter total of 86,000. As of June 30, the company had total installed subscribers of 399,000, with an order backlog of approximately 40,000. Certainly, this is still far behind Excite@Home's 1.8 million, but represents major growth for SBC. The company plans to reach 1 million DSL subs by the end of this year.

What's next?

Of course, this isn't just about providing SBC's customers faster access to websites like Fool.com (though that is a worthy goal). The company expects significant revenue growth from DSL-enabled services, beginning with higher subscriber fees than it ever got for local phone service. Additional revenues may come from interactive entertainment, such as video-on-demand and games, and business services such as video conferencing.

But the company will need plenty of revenue and earnings to justify the \$6 billion in capital expenditures sunk into "Project Pronto." Investors will need to watch SBC's [financial statements](#), and not just its announcements of new services, to ensure that it does so.

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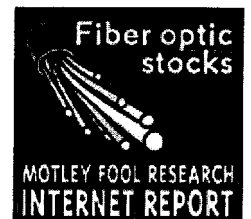
What do you think of SBC's broadband initiatives? Let us know on our [discussion boards](#).

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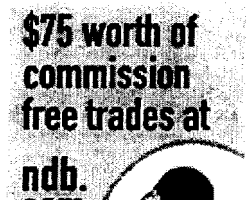
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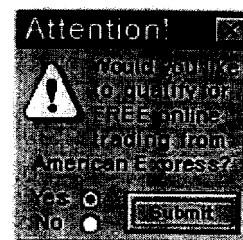


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SBC Reports 9.8% Revenue Growth as Part of 2Q Earnings

Strong Revenue, Wireless and Data Growth Power SBC's Second-Quarter Performance

Total revenues rise 9.8 percent; 537,000 wireless customers added; Diluted EPS of \$0.56 versus \$0.55 a year ago, before one-time items

San Antonio, Texas, July 20, 2000

Second Quarter Earnings Package

SBC Communications Inc. (NYSE: SBC) today reported strong second-quarter revenue growth driven by its rapidly expanding data communications and wireless operations.

Second-quarter revenues grew 9.8 percent to \$13.2 billion. Diluted earnings per share before one-time items were \$0.56, compared with \$0.55 during the second quarter of 1999.

Highlights of SBC's second-quarter growth include:

- 38.2 percent growth in data revenues, to \$1.8 billion.
- A 537,000 net gain in wireless customers, SBC's best quarter ever. Domestic wireless subscriber revenues increased 30.6 percent, to \$1.6 billion.
- 399,000 total Digital Subscriber Lines (DSL) in service at the end of the quarter, including a net gain of 198,000 in the second quarter. This is more than double the total added in the first quarter.
- 15.8 percent growth in equity income from international investments.

"We continue to execute our business plan with passion and purpose, which is to completely transform SBC and its companies into a data-centric business capable of becoming the only communications source our customers will ever need," said Edward E. Whitacre Jr., chairman and CEO.

"We are very pleased that the areas we invested in to drive growth for SBC – data, wireless, international and long distance – are producing strong results. We are solidly in the execution phase of our transition," Whitacre said.

"Long distance is a great example. More than 150,000 people signed up for long distance in the first eight business days after we launched the service. Long-distance service allows us to strengthen existing customer relationships, and it opens the door to more growth in data services as we build on a brand that our customers know and trust."

In addition to long distance, SBC continues to make good progress in other strategic areas including the company's wireless joint venture with BellSouth, and the combination of its Internet operations with those of Prodigy.

"Completing the Prodigy transaction was another significant milestone in SBC's strategy of becoming the premier provider of data communications and Internet services – and the nation's leading provider of DSL," Whitacre said. "Similarly, we're moving ahead rapidly toward completing our wireless joint venture later this year. The transaction will help make SBC an even stronger national leader in the wireless voice and data businesses."

"As previously announced, earnings growth this year will reflect investments in high-growth opportunities, as well as the ongoing integration of Ameritech," Whitacre said. "Our goal is to deliver double-digit revenue growth and midteens earnings growth in 2001."

Additional second-quarter highlights:

- **Data Services:** Demand from business customers remains strong. During the quarter, dedicated transport revenues increased 35.6 percent to more than \$1 billion, while switched transport and application services/data communications solutions, which include applications, network integration services and Internet services, grew 32 percent and 50.5 percent respectively compared with the second quarter of 1999. Businesses' increasing need for speed, bandwidth, network management and e-business solutions continued to fuel growth in data services during the quarter. SBC and its Sterling Commerce subsidiary are working together to expand activity in the business-to-business, small business and online security segments. DSL growth also was strong as SBC added 198,000 DSL subscribers compared with 86,000 in the first quarter of this year. SBC is making good progress with Project Pronto, a \$6 billion investment to give SBC state-of-the-art networks to carry vast amounts of data, as nearly 15 million customer locations are DSL-capable, approaching the year-end goal of 18 million.
- **Wireless:** SBC's record 537,000 net gain of wireless customers during the second quarter was 70 percent higher than the year-ago period. SBC took several strong steps during the quarter to spur future wireless growth. In June, SBC launched its Digital Edge USA®, national calling plans, among the country's most competitive nationwide flat-rate wireless calling plans. SBC also announced that it plans to acquire wireless systems covering a total population of 7.4 million in Seattle, Spokane, Austin and other parts of Texas. SBC also is moving quickly to introduce Wireless Application Protocol (WAP) services that bring wireless Internet access to customers; the company plans to launch WAP in California in August. SBC plans to finalize its joint venture with BellSouth later this year; the joint venture will form a strong new nationwide wireless competitor with more than 17 million customers.
- **International:** SBC's international holdings continued to deliver strong growth, driven by solid progress in wireless, wireline and data services. SBC's international affiliates increased their number of wireless subscribers 82.8 percent to more than 28.4 million during the first half of this year, and have increased total revenues 42.5 percent to \$19.3 billion, including SBC's June 1999 investment in Bell Canada. The outlook for international growth in data communications remains strong. Pre-tax equity in net income from international investments totaled \$198 million during the second quarter, up nearly 16 percent from year-ago results.
- **Long Distance:** SBC on June 30, 2000, won Federal Communications Commission approval to offer long-distance service in Texas. On July 10, 2000, SBC began offering long-distance service in the \$7.7 billion Texas market through its Southwestern Bell Long Distance subsidiary to more than 20 million business and residential customers in Texas. Initial response to SBC's long-distance offering has been outstanding. More than 150,000 customers signed up for long distance during the eight business days after the company launched the service. SBC plans to use its success in Texas to help it enter the long-distance market in 11 more states in the company's traditional service area as part of the company's goal of one day offering long distance coast-to-coast.

http://www.sbc.com/Investor/Financial/Earning_InfoHome.html



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- **National Expansion:** During the second quarter, SBC accelerated its efforts to expand into new metropolitan area markets beyond its traditional regions and opened a multi-purpose national sales and service center in Tampa to support the initiative. SBC recently entered its first new markets and targets entry into nine new markets this year, and a total of 30 new markets by year-end 2001, six months faster than originally planned. The national expansion will give SBC a local presence in 50 of the top U.S. markets and is targeted to add an incremental \$1 billion in revenue by 2002.

Results Including one-time Items

Including one-time items, SBC's reported net income for the second quarter of 2000 was \$1.85 billion, or \$0.54 diluted earnings per share, compared with \$1.9 billion, or \$0.56 per share, in the year-ago quarter.

Reported net income for the second quarter of 2000 includes the following one-time items: settlement gains of approximately \$80 million primarily related to employees who terminated employment during 1999, and costs of approximately \$153 million associated with strategic initiatives and adjustments resulting from the merger integration process with Ameritech.

Cautionary Language Concerning Forward-Looking Statements

Information set forth in this news release contains financial estimates and other forward-looking statements that are subject to risks and uncertainties. A discussion of factors that may affect future results is contained in SBC's filings with the Securities and Exchange Commission. SBC disclaims any obligation to update or revise statements contained in this news release based on new information or otherwise.

SBC Communications Inc. (www.sbc.com) is a global communications leader. Through its subsidiaries' trusted brands - Southwestern Bell, Ameritech, Pacific Bell, SBC Telecom, Nevada Bell, SNET and Cellular One - and world-class network, SBC's subsidiaries provide local and long-distance phone service, wireless and data communications, paging, high-speed Internet access and messaging, cable and satellite television, security services and telecommunications equipment, as well as directory advertising and publishing. In the United States, the company currently has 61.2 million access lines, 12.2 million wireless customers and is undertaking a national expansion program that will bring SBC service to an additional 30 markets. Internationally, SBC has telecommunications investments in more than 20 countries. With approximately 219,000 employees, SBC is the 13th-largest employer in the U.S., with annual revenues that rank it among the largest Fortune 500 companies.

For more detailed information on SBC's second-quarter results, visit our website at <http://www.sbc.com/Investor/earnings.html>.

SBC Communications Inc.
Financial Summary and Comparisons
(dollars in millions, except per share amounts)
(unaudited)

-- SECOND-QUARTER RESULTS --

EXCLUDING ONE-TIME ITEMS:	2000	1999	CHANGE
Operating revenues	\$13,212	\$12,035	9.8%
Operating expenses	\$10,097	\$8,879	13.7%
Net Income	\$1,924	\$1,910	0.7%
Diluted earnings per share	\$0.56	\$0.55	1.8%
AS REPORTED			
Operating revenues	\$13,211	\$12,268	7.7%
Operating expenses	\$10,213	\$9,041	13.0%
Net Income	\$1,851	\$1,938	(4.5)%
Diluted earnings per share	\$0.54	\$0.56	(3.6)%
Weighted average common shares outstanding (in millions)	3,396	3,411	(0.4)%
Weighted average common shares outstanding with dilution (in millions)	3,438	3,461	(0.7)%

SBC Communications Inc.
Financial Summary and Comparisons
(dollars in millions, except per share amounts)
(unaudited)

-- SIX-MONTHS RESULTS --

EXCLUDING ONE-TIME ITEMS:	2000	1999	CHANGE
Operating revenues	\$25,784	\$23,636	9.1%
Operating expenses	\$19,570	\$17,545	11.5%
Income before cumulative effect of accounting change	\$3,834	\$3,617	6.0%
Diluted earnings per share before cumulative effect of accounting change	\$1.12	\$1.05	6.7%
AS REPORTED			
Operating revenues	\$25,783	\$24,080	7.1%
Operating expenses	\$19,709	\$17,802	10.7%
Income before cumulative effect of accounting change	\$3,673	\$3,711	(1.0)%
Cumulative effect of accounting change, net of tax ¹	-	\$207	-
Net Income	\$3,673	\$3,918	(6.3)%
Diluted earnings per share before cumulative effect of accounting change	\$1.07	\$1.07	-
Weighted average common shares outstanding (in millions)	3,396	3,409	(0.4)%
Weighted average common shares outstanding with dilution (in millions)	3,435	3,459	(0.7)%

¹ Changes in directory accounting at Ameritech Corporation during the first quarter of 1999.



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It's a Steamroller Baby ... SBC's Project Pronto's Gonna Roll All Over You By Kim Sunderland

There's a \$6 billion initiative steadily being turned out in Texas that purports to flatten resellers like a steamroller. Their fear is that SBC Communications Inc.'s (www.sbc.com) Project Pronto, the RBOC's separate affiliate for broadband, could be exempted from federal rules designed to spur and protect the resale industry.

"We're not worried specifically about RBOC separate affiliates," explains Ernest B. Kelly III, president of resale trade group the Association of Communications Enterprises (www.ascen.org), formerly the Telecom-munications Resellers Association. "What deeply concerns us is the decision by the FCC (www.fcc.gov) to exempt advanced services affiliates from resale and unbundling obligations. If the ruling stands, it would be a terrible blow to local phone competition. ASCENT has challenged the decision in federal court, arguing that it plainly violates the '96 Telecom Act. We're confident the court will agree."

In April, resellers asked the U.S. Court of Appeals for the D.C. Circuit (www.cadc.uscourts.gov) to review the FCC's order that holds that the ILECs don't have to offer for resale any xDSL-based advanced service they designate as a service aimed at ISPs. An ASCENT petition (under the group's former name) argues that the order gives ILECs a new vehicle to avoid their statutory resale obligations with respect to xDSL-based advanced services.

The FCC's Second Report and Order in the Advanced Services Rulemaking concluded that xDSL-based advanced services are "telecommunications services" and, therefore, must be made available for resale at statutory discounts.

In that same decision, however, the commission absolved ILECs of their obligation to offer at wholesale rates for resale any xDSL-based advanced service they designate as a service to be provided to ISPs.

Prior to the FCC's decision, resellers said the ILECs refused to make xDSL-based advanced services available to them at statutory discounts based on the claim that these services were "exchange access."

Now, however, resellers say the ILECs are avoiding their statutory resale obligations by designating all their xDSL-based advanced services as ISP services.

"In our view, the commission's interpretation of the 1996 act as it applies to the resale of advanced services runs completely counter to the act's intent," Kelly says. "Rather than accelerate the deployment of such services, it will seriously hinder their deployment. If the court sends the decision back to the commission, as we hope, perhaps they'll get it right the second time around."

SBC's Reasoning

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For its part, SBC claims that Project Pronto will solve a major problem facing companies attempting to roll out DSL technology: The technology can be deployed only over copper wires no more than about three miles long.

Project Pronto will run fiber optic cables to remote terminals that will act as extensions of the CO switches. Copper wires then will run from the remote terminals to businesses and residences, allowing deployment of DSL to more remote areas. To comply with the FCC's line-sharing requirements, SBC says that competitors can lease equipment from SBC to reach customers connected to the remote terminals, can resell SBC's DSL service, or can install their own remote terminals.

"The FCC has repeatedly held that it is not the role of the commission to select the 'best' or 'preferred' technology to meet customer demand," says Priscilla Hill-Ardoin, SBC's senior vice president of federal regulatory issues. Rather "in decision after decision, the FCC has placed the utmost priority on encouraging the rapid deployment of high-speed Internet access services. Our investment fulfills that goal by bringing DSL service to millions of consumers who can't currently receive it."

Hill-Ardoin calls the competitors' filings "a calculated and anticompetitive ploy to delay SBC from offering consumers high-speed Internet service and [to] hamper our ability to compete effectively in the marketplace."

She says SBC strongly believes the competitors ultimately will slow DSL deployment by charging that SBC's planned DSL network creates a new platform over which current competitor equipment would no longer work.

"Data affiliates represent a disturbing development," says ASCENT Executive Vice President David Gusk. "As the distinction between conventional and advanced services become increasingly blurred, we suspect that incumbents will use affiliates to escape their resale and unbundling obligations and protect their market dominance."

Bad Conditions

To the extent Project Pronto denies competitive carriers resale and unbundled access to advanced services, resellers are opposed to it. In fact, ASCENT also has asked a federal court to strike down the SBC-Ameritech Corp. (www.ameritech.com) merger condition that it says allows the company to escape its resale and unbundling obligations through the formation of an advanced services affiliate.

Last December, the group filed an appeal in the D.C. Circuit seeking to overturn a key condition of the SBC-Ameritech merger that unlawfully denies competitive carriers wholesale access to advanced services in SBC-Ameritech territory and threatens to do the same in other markets as well.

The separate affiliate requirement is one of the 30 conditions SBC and Ameritech accepted to secure the FCC's approval of the companies' merger. The requirement is based on a provision in the Telecommunications Act of 1996, which holds that a subsidiary of an ILEC that isn't legally a "successor or assign" of the carrier, is exempt from the act's resale and network unbundling obligations.

The merger condition presumes the SBC-Ameritech advanced services affiliate is not the company's "successor or assign" and, thus, would have no obligation to offer services at wholesale rates or through UNEs.

However, in comments filed with the FCC during review of the planned merger, resellers told the commission that the separate affiliate being considered would be a "successor or assign" of the parent company and, therefore, subject to the same competitive obligations as all other ILECs.

Unfortunately, their concerns were not addressed in the final merger conditions released in October 1999.

"We had hoped the commission would correct the problems with the separate affiliate condition prior to approving the merger, but regrettably this did not occur," Kelly says, as he explains ASCENT's decision to file the appeal. "The condition establishes a frightening

precedent by giving other incumbent LECs the ability to escape their resale and unbundling obligations simply by establishing a separate affiliate to serve as a front. On a more practical level, it's a terrible blow to competitive carriers in SBC territory because it restricts their access to advanced services. For these reasons, we believe we have no choice but to ask the court to intervene.

"The waiver being sought by SBC regarding Project Pronto comes as no surprise to us," Kelly adds. "This is just another example of SBC putting the squeeze to competitors. This time by engineering their network in a way that chokes out available collocation space and limiting the types of electronics competitors can use."

Take Cover!

Other lobbyists on Capitol Hill are preparing for the Texas landscape to be razed.

In an ex parte letter filed May 18 with the FCC, the Competitive Telecommunications Association (www.comptel.org) and several of its members proposed conditions they believe "will best preserve new competitors' ability to provide both voice and data services in competition with SBC under its proposed Project Pronto network architecture via remote terminals."

SBC submitted its merger condition waiver request because it cannot implement this "overlay network" without violating the merger conditions imposed by the FCC, competitors claim in their letter to the FCC.

CompTel says the merger conditions will best promote competition if SBC's advanced services affiliate is required to stand in line like any other competitor.

"CompTel supports SBC's ability to deploy fiber and other network upgrades across its region, and indeed, encourages SBC to make broadband capabilities available to as many of its customers as possible," says H. Russell Frisby Jr., CompTel's president. "However, ... the Project Pronto proposal, in its current form, has serious anticompetitive implications and would slow or deny new competitors' ability to offer differentiated advanced services in combination with voice services in competition with SBC."

CompTel and member companies Covad Communications Co. (www.covad.com), Prism Communications Services Inc. (www.transwire.com) and CapRock Communications Corp. (www.caprock.com) offered their proposal should the FCC grant SBC's waiver request. Key conditions include the following:

- * A transition period to enable new competitors to transition onto the Project Pronto network.

- * Collocation requirements to assure that interconnection must be made available at any technically feasible point in the SBC network, regardless of whether the point of connection is owned by the SBC ILEC or its affiliate.

- * Specified UNEs should be made available on either a "leave combined" or separated basis as required by competitors.

"It is critical for competitors to be able to meet market demand for reliable, high-quality integrated voice and data services," says Renee Crittendon, deputy chief counsel for Prism.

Basically, any substantial reconfiguration of an incumbent's network could have a fairly strong affect on how competitors deliver advanced services to customers in that incumbent's area, competitors say.

These conditions, if adopted by the FCC, will require SBC to live up to its merger promises, and would promote competitors' ability to provide advanced, integrated services "without having to jump over monopoly-imposed barriers," Crittendon adds.

Construction Continues

Meanwhile, Project Pronto continues to ramp up.

"We are committed to building this network for customers," SBC spokeswoman Kristen Childress says. "And this extensive DSL rollout is on track with our goals and projections."

At the end of 1999, Childress reports that 169,000 subscribers, residential and business, could receive broadband services. By March 31, SBC could have provided 13 million homes and businesses with DSL, and 300 new markets will be added to its network by the end of the year, she adds.

The ILECs collectively have said that it's outrageous for competitors to think they should have input into how and when SBC deploys high-speed Internet access. They've also emphasized the FCC has no authority to dictate how SBC or any other ILEC spends its money and deploys its technology.

Because of this attitude, "regulators can't allow SBC to rebuild its traditional monopolistic network," says Robert McCausland, vice president of regulatory and interconnection for Allegiance Telecom Inc. (www.allegiancetelcom.com). "They must ensure ILECs construct open network architecture that meets the tenets of the Telecom Act."

Project Pronto is good timing on SBC's part with the FCC wrapping up field hearings on the current state of advanced services deployment across the United States. The commission is particularly interested in whether such services are being deployed in inner cities and rural areas, and if not, what types of regulation might encourage such deployment. A report is slated for a summer release.

Kim Sunderland is Washington Bureau Chief for PHONE+.

Project Pronto Initiatives

Through Project Pronto, SBC Communications Inc. (www.sbc.com) intends to:

- * Provide an estimated 77 million Americans--about 80 percent of its Southwestern Bell (www.swbell.com), Ameritech Corp. (www.ameritech.com), Pacific Bell (www.pacbell.com), Nevada Bell (www.nevadabell.com), and SNET (www.snet.com) customers-- with always-on, high-speed voice, data and video services via faster DSL services than it currently offers by the end of 2002. Ultimately, the company intends to make broadband services available to all of its customers.
- * Rearchitect its network to push fiber deeper into the neighborhoods it serves and accelerate the convergence of its voice and data backbone systems into a next-generation, packet-switched, designed-for-the-Internet network.
- * Dramatically reduce its network cost structure. Expense and capital savings alone are expected to offset the cost of the entire initiative.
- * Create a platform to deliver next-gen services including, potentially, entertainment quality video, and expand development and marketing to more quickly bring customers emerging products such as voice over ADSL (asymmetric DSL), personal videoconferencing, interactive online games and home networking.



Chart: The Broadband Home

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In Depth: Technology Quarterly

From the June 23, 2000 print edition

Pacific Bell throws its weight into Project Pronto

Daniel S. Levine Business Times Staff Writer

Patrick Cuesta is working six days a week, as much as 12 hours a day. Overtime has become like candy on Halloween -- he's got more than he could possibly want.

Cuesta, a head senior technician for Advanced Solutions Inc., the data subsidiary of Pacific Bell's parent SBC Communications, is part of a rapidly growing army of installers, technicians and marketers who have been feverishly working to bring digital subscriber lines (DSL) to Bay Area businesses and consumers.

"You have the flexibility as to whether you want to put that many hours in," Cuesta said. Indeed, by some other technicians' standards, a 12-hour day would be a nice break. They can sometimes find themselves still on the job at midnight, 16 hours after their day started.

The long hours being faced by technicians such as Cuesta reflect a radical change in approach to DSL that SBC has taken starting at the end of last year with its \$6 billion network upgrade, appropriately dubbed "Project Pronto."

SBC is making a huge bet that DSL lies at the heart of its future as it overhauls its network with fiber and ATM technology to make it better able to meet the new data demands of consumers and businesses. The three-year initiative is the largest of any being undertaken by a regional Bell and is helping rocket SBC toward becoming the leading provider of broadband services nationally.

Not yet a sure thing

DSL allows traditional copper lines to carry large amounts of data at speeds as much as 100 times traditional dial-up modems. Such high-speed connections not only eliminate sluggish downloading of web pages and other data, but make new uses such as streaming video, music files and newly developing services much more practical.

But DSL has proven to be anything but a plug-and-play technology. Depending on the age, operating systems, software and hardware combinations of each computer different, installations of DSL can sometimes be difficult, complex and costly to the provider. At a flat rate of \$39.95 a month including installation and equipment, SBC's strategy seems to be to set aside concerns about short-term returns and make sure they beat competitors into consumers' homes.

SBC has said it expects a two-year payback period per DSL customer by 2004. The technology both in the subscriber's home and at the switching station is estimated to cost just under \$500 per subscriber and SBC expects to spend an additional \$350 to acquire a subscriber. That up-front outlay is being made with an eye toward the future.

"They want to be your one-stop, telecommunications provider and the technology they are using to do that is DSL. They are counting on the fact that the more services they are selling you, the more you are going to stick with them," said Adam Guglielmo, a DSL analyst with the Denver-based management consulting firm Telechoice Inc.

"It's getting you before cable gets you and holding on to you and then eventually selling you additional services, much like they do with the phone line," he said. "They sell you voicemail and they sell you caller ID and call waiting and things like that. They are going to sell you video-on-demand, sell your kids games -- pay a dollar to play for a couple of hours today -- stuff like that."

More access for the masses

The massive investment in infrastructure is aimed both at new technology at switching stations to accommodate DSL and pushing fiber networks deeper into neighborhoods to overcome the limits of copper lines and allow a greater number of people to have access to the service. For DSL to operate properly, a customer has to be within 18,000 feet of a switching station. To that end, SBC plans to place or upgrade about 25,000 remote terminals -- so called "neighborhood broadband gateways" -- to extend the reach of fiber and be able to reach as many as 35 million customers with broadband services within three years.

SBC estimates the infrastructure investment will create new annual revenue of \$3.5 billion an annual savings of \$1.5 billion by 2004.

"We believe DSL is a foundation for us for future revenue. As applications and content and commerce become available and are developed, we intend to participate heavily in the market as well," said Eric Boyer, executive director of DSL retail strategy. "We look to the Bay Area, we look to Los Angeles, we look to California as an indicator as to where the rest of the country is headed."

Analysts say SBC was initially slow to move into the DSL market. That's because the company had much higher-value broadband services to sell businesses with T1 lines and the consumer market offered little immediate reward.

But the inroads made by a new breed of competitors in competitive local exchange carriers or CLECs such as Northpoint Communications, Covad Communications and Rhythms NetConnection in the business market and by ExciteAtHome's cable modem offerings on the residential side forced SBC to change its posture.

"Really they've been pushed into it," said Carl Garland, principal analyst of Network Services for Current Analysis, a Washington, D.C.-based provider of strategic information to the telecommunications industry. "On the business side, they wanted to keep selling T1s, but the data CLECs wouldn't let them keep doing that and making high margins. So they got dragged in there. Cable modems looked like they were going to have run away domination in the home, so they got dragged into it there. They are gearing up to put enough support and sales staff in place and they are just not quite there yet."

Self-install is next step

By the end of the first quarter, SBC's aggressive approach to the market was already paying off. The company said it had installed 201,000 lines and had a 100,000 backlog of orders.

The company is being successful at speeding up the time lag between orders and delivery and cutting its own costs.

In the Bay Area, thanks to increased staffing and more experience, Pacific Bell said it has approximately cut the waiting time for DSL installation in half to about three weeks and SBC overall has pushed the daily installations up to about 4,000 a day from 1,000 by the end of the first quarter.

SBC also expects to soon offer self-install kits where residential users will get everything they need -- a modem, software and Ethernet card -- in a box. Despite the numerous cases of difficult DSL installations, the company believes the majority of users will be able to install the service on their own without a problem.

Turning up the heat

But SBC has turned up the heat at a fiercely competitive time for broadband access providers because competition has fully opened up in the residential market with new line sharing rules from the Federal Communications Commission now in effect. These rules dramatically cut the cost of installing DSL for CLECs, who previously would have had to pay Pacific Bell to install a separate line for their service.

Competitors have charged that SBC and Pacific Bell not only play hard, but sometimes don't play fair. They have assaulted the telecommunications giant with accusations of foot-dragging to keep competition out of their markets and misleading advertising. Pacific Bell has fought such claims, but not always successfully. Santa Clara-based Covad Communications won a \$27.2 million award from the American Arbitration Association against Pacific Bell for failing to provide space and equipment in a timely manner as required under the Telecom Act.

And ExciteAtHome lashed back at Pacific Bell's "web hog" ads that mocked cable access service because speeds can be slowed by heavy traffic on a node. That is remedied by adding more nodes as users grow and the result is that cable and DSL offer similar speeds to residential users. Pacific Bell has since added a disclaimer to those ads.

But everything about SBC is aggressive these days as the company applies a full court press. It has accelerated its plans for its network upgrade, saying by the end of 2002, 80 percent of people in its 13-state territory will be able to get DSL service. To further leverage its infrastructure investment, SBC recently cemented a deal with ISP Prodigy. SBC will hold a 43 percent stake in Prodigy and it will become the service provider for all of SBC's residential and small business customers.

"Initially it was kind of a catch-up play, but they are like the 800-pound gorilla," said analyst Garland. "Yes, they are catching up, but they have come in so big and heavy that everyone else is reeling."



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Why the Biggest Baby Bell Is Wild About Broadband

Part 4

By Stephanie N. Mehta

In the broadband war, cable operators can be hyperaggressive too. Time Warner Cable (which belongs to the same company as FORTUNE) caused a flap in May when its managers in Houston asked employees to order, then cancel, broadband service from SBC. The idea was to find out exactly which areas SBC could and could not serve. Higher-ups quickly squelched the scheme; SBC complained to federal regulators.

The question now is whether SBC can move fast enough to impress an increasingly fickle Wall Street. So far, Project Pronto hasn't budged the share price. "Our stock has not reflected the value we're creating," says CFO Don Kiernan. "Investors like what we're doing, but they're saying, 'Prove it, give us evidence.'" SBC figures its stock should trade between \$73 and \$82 a share, based on a sum-of-the-parts valuation. Kiernan likes to point out that SBC has delivered on promises before. It achieved cost savings from the Pacific Bell merger faster than expected, and it hasn't missed analysts' earnings estimates since Whitacre took over as CEO. That's a big reason Janus Capital bought the stock. The broadband story is "what got us interested," says portfolio manager Ankrum. "Then you ask, 'Do they have the right management team with the right strategy?' We think the answer is yes."

Even though SBC's bread-and-butter local telecom business continues to generate billions of dollars in cash each year, the company needs Project Pronto and other growth schemes to attract investors. SBC has been working on plans to sell phone and Internet service to customers outside its 13-state footprint. It forged a joint venture with BellSouth to combine their cellular operations, boosting SBC's wireless reach by 50%. SBC continues to fight for permission to offer long-distance services in its home regions. And as SBC becomes a national company, it expects to sell DSL services to corporations that want employees to work from home. (It has a contract with IBM to provide residential DSL for some 15,000 telecommuting employees in California, Texas, and Connecticut.) Within just a few years, SBC says, all these new lines of business will represent 50% of its revenue, up from about a third today. "We believe SBC is one of the clear surviving telecom companies," says J.P. Morgan strategist Jacobs.

SBC is already thinking beyond Pronto. Indeed, a time will come when consumers will expect more from their speedy Internet hookups than from always-on eBay. To keep its customers happy, and to attract a new breed of broadband junkies, SBC will have to start pushing attractive fare through those big pipes. Movies would be a natural, but games and home-security systems are also under consideration. "We're looking at a whole palette of applications to help customers manage their lifestyles," says Abha Divine, a member of SBC's corporate-strategy team. She is helping develop an "online home" product that acts as a sort of electronic mom, keeping track of appointments and phone messages, and paying the bills electronically. Divine hopes to see a version of the service available to consumers next year.

SBC employees may not know it yet, but Whitacre has already picked a goal for next year's DSL deployment. "We'll get a million customers this year, and double that next year," he vows. And for anyone who doubts that SBC's future is firmly hitched to the Internet, he has a message. "Broadband will be indispensable, and it's going to happen pretty quickly," says Whitacre. He pauses, then draws a comparison with a technology he knows pretty well. "It will be as basic as telephone service." Maybe there's a good reason after all to listen to this guy without a PC.

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BRIEFING

The Alpha RBOC Does Data

from the June 2000 issue of *Business Communications Review*, pp. 14–16

by [Eric Krapf](#), managing editor of *Business Communications Review*

The image of RBOCs as collections of stodgy Bell-heads is satisfying to Internet hotshots who want broadband—and want it now. But in fact the RBOCs are moving toward a public network ideal in which data plays a much more significant role—although still not a dominant one. To see what kind of progress the RBOCs are really making, let's focus on the data initiatives of [SBC Communications](#).

We're picking on SBC for a few reasons, starting with the fact that it's the largest RBOC and serves the region of the country with perhaps the highest concentration of demand for advanced data services—California. Furthermore, with its Project Pronto, SBC has the most clearly articulated migration plan of all incumbent local exchange carriers (ILECs) for broad-scale advanced services rollout (see "New Issues For The Broadband Demarc," in this issue, pp. 10–11). Finally, SBC has made a series of acquisitions and partnerships that go beyond brute-force RBOC consolidation, into the realms of Internet services and ecommerce in general.

It's important to focus on an ILEC because, while in the past incumbents certainly have lagged in Internet/data-related services, they are now setting the pace in some key capabilities. Not only do the RBOCs sell nearly 75 percent of all U.S. DSL lines, according to TeleChoice (www.xdsl.com for market data), but they're even making a strong showing on the CLECs' turf—business DSL services. The ILECs have 38 percent share of this segment, despite putting only minimal efforts into marketing or tailoring DSL offerings to market needs.

In short, while a lot of interesting things are happening in the realm of the alternative carriers—be they wireless or DSL-based CLECs, or even the new fiber-based access providers—the future of data, at least at the access level, clearly resides with the ILECs. And since SBC is the pacesetter, it's appropriate to see what they will (and won't) be doing in the near future.

Project Pronto and DSL

SBC's major convergence/data initiative, Project Pronto, commits the RBOC to spending some \$6 billion on an advanced infrastructure that features neighborhood-based remote terminals, which will be connected via fiber to the central office (CO). Because the architecture provides for short copper runs from the remote terminal to the home, it's assumed that DSL's much-discussed distance limitations will be rendered moot. As it turns out, competitors' ability to attach their own equipment to SBC's unbundled network elements (UNEs) could also be rendered moot—but that's another story.

Pronto incorporates DSL, but SBC isn't waiting for the Pronto infrastructure to be built before deploying DSL, and in a big way. By all accounts, SBC has shot ahead of US West to become the leader in DSL line counts. Joe Simone, senior director of business marketing at SBC, claims that the RBOC's DSL deployment is ahead of schedule, and he vows that SBC will have 1 million DSL customers signed up by year-end, and an infrastructure deployed that can support 16 million DSL-capable lines. Today, 850 SBC wire centers are DSL-capable, and 1,300 will be ready by year-end.

These are ambitious objectives. According to TeleChoice, the entire industry had deployed just 754,770 DSL lines as of 1Q00; by its own account, SBC had sold

301,000 DSL lines as of 1Q00.

There's an important distinction to be made here: lines sold don't equal lines installed. Earlier this year, Bay Area newspapers reported that SBC had a backlog of 100,000 orders in California, ascribing the shortfall to a combination of too few installers and too much demand. Simone sought to mitigate this number somewhat, asserting that those 100,000 customers included an unspecified percentage who had successfully ordered the service and were simply waiting for their installation date. (By the way, Simone said SBC was averaging 14 days' wait for installation.)

But SBC acknowledges that it has been tough to find enough installers to meet the explosion of demand for DSL, especially in California. The company started out with 1,100 DSL technicians, and has promised to bring that number up to 3,000; at the recent Network+Interop show, Simone told *BCR* that the RBOC planned to increase its staffing even further, though he wouldn't say by how much.

This raises the question of just how many DSL lines SBC can roll out even under the best of circumstances. For this discussion, we'll leave aside the considerable challenge still posed by outside plant conditions and distance limitations—across the country, many would-be customers are still being told they can't get DSL at all.

Instead, we'll start with SBC's own estimates of what it can do. The RBOC promises it will be able to install as many as 5,000 DSL lines per day during the second half of this year—that is about double the daily rate SBC was claiming as of last March. At 5,000 lines a day and 240 business days per year, SBC can install 1.2 million DSL lines a year. This is a huge number relative to the existing installed base of DSL, but it's a small percentage of the total SBC customer base of 61 million access lines.

The important thing about the per-day installation metric is that it identifies the real choke point in DSL adoption today. Theoretically, SBC would continue to do the maximum number of DSL installations a day for as long as demand held up, which, to most people, means forever. But installations depend on factors such as SBC's ability to hire and train installers and the need for truck rolls. SBC and other RBOCs say these issues will be reduced once the consumer-oriented G.Lite systems become available later this year; manufacturers claim customers will be able to install G.Lite without tech visits.

So assuming best-case scenarios, time-to-install may not be completely lacking in elasticity, which is what SBC is betting on when it projects that it can double its capabilities to 5,000 installs per day. The problem then becomes how many times it can achieve a doubling of its install rate; barring Moore's Law-scale advances in service provisioning, SBC will, at best, be able to bring DSL to a small minority of its access lines for several years to come. At least until such time as Project Pronto can fundamentally alter the nature of DSL provisioning, SBC—and by extension, all carriers—will be physically incapable of rolling out DSL as fast as most people hope.

Cisco Partnership

A sidelight to SBC's DSL odyssey came in April, when it announced an agreement with Cisco that included a multibillion-dollar purchasing deal. At first glance, it would seem that the two companies have fundamentally different approaches to the access network of the future—Cisco being synonymous with IP while SBC has cast its lot with ATM in Pronto. And while, indeed, the initial announcement framed Cisco's role as "complementary" to Pronto, SBC officials have since been saying Cisco gear will be included in the Ameritech-region rollout of the massive project. Simone confirmed that Cisco is "definitely part of Pronto," specifically as a provider of the following equipment:

- **DSLAMs**—Though Alcatel has been the preferred DSLAM vendor for the Southwest Bell and Pac Bell regions, Cisco will be the preferred DSLAM vendor for the Great Lakes deployments, according to Simone.
- **Frame relay/ATM**—Cisco's ATM switches will be deployed in Pronto.
- **Neighborhood gateways.**

Cisco is also slated to provide equipment for other technologies outside of Pronto:

- Data virtual private networks (VPNs).
- Remote dial-up access for ISPs and enterprises.
- DSL service switching, to let customers reach both their ISP and corporate LAN on a single connection.

- ATM services.

Time will tell how close SBC and Cisco really become; certainly the April deal gives Cisco a big service provider win to talk about, while offering SBC some much sought-after credibility in the data world.

Metro GigE Service

But SBC's efforts in data go beyond simple DSL connectivity and Project Pronto. One of the hottest topics in public data networking is fiber-based metropolitan area Ethernet services, with startup providers such as Yipes and Telseon promoting native LAN services at Fast Ethernet and even Gigabit Ethernet rates for the MAN.

SBC appears to have beaten the new guys to the punch, though it's still early days for the RBOC as well. The company has been offering a service called GigaMAN in the Ameritech region, and last month announced the expansion of service availability to the rest of its territory.

GigaMAN provides native GigE interfaces for point-to-point connections up to 50 miles, using equipment from JDS Uniphase, according to Joe Simone. He wouldn't say how many customers currently use the service, but he described DePaul University in Chicago as a "typical" early adopter: a university with multiple campuses and high bandwidth needs. DePaul's service is slated to be turned up this summer and then phased in over the course of a year. Pricing for GigaMAN is on an individual case basis, but Simone said SBC has delivered the service for as little as \$3,000 per site per month.

Native Gigabit Ethernet is intended to fit into a suite of business data services that SBC will continue to expand, according to Simone. Besides offering SONET services, SBC is conducting technical trials on passive optical networks (PONs), and could introduce ATM-based PON services at 1.5 Mbps–100 Mbps by year-end, he said.

Sterling Commerce

As much as SBC made headlines when it purchased Pacific Bell and then Ameritech, its more recent acquisitions provide intriguing signs of the RBOC's future direction. Most significantly, last March, SBC closed its \$3.6 billion acquisition of Sterling Commerce, one of the top names in ecommerce integration and managed services. Sterling claims 45,000 customers worldwide, and is used by 487 of the Fortune 500.

SBC will integrate its marketing force with Sterling's where appropriate, but will keep Sterling as a separate layer on the infrastructure/service delivery side, according to Simone. In other words, the RBOC plans to market complete ecommerce packages, in which the telco side will deliver the connectivity and then bring in Sterling to set up the ecommerce systems and support. At the same time, Sterling announced it will realign its organizational structure and next month will come out with "next-generation" solutions as part of the transition to SBC ownership.

Conclusion

Besides moving ahead on data and Internet services, SBC continues to seek its first approvals to get into the long-distance business in Texas. It also has concluded interconnection agreements with incumbent carriers in Washington and Massachusetts as first steps in entering out-of-region markets—as the FCC demanded in return for its approval of the Ameritech merger. How aggressively SBC moves in these new markets remains to be seen; it's only committing itself to resale services in some cases, though it has contracted with service provider Network Access Solutions to roll out DSL out-of-region.

But, as important as the data market is, it's only a piece of the puzzle for any RBOC. True, SBC is seeing phenomenal growth: Its 1Q00 data revenue was \$1.6 billion, up nearly half a billion dollars or 40.8 percent more than the same quarter last year. What's more, the company projects 30+ percent compound annual growth in this segment for the next two years.

But perhaps more significant is a related projection: SBC says annual data revenues will double between 1999 and 2002, which means they'll total some \$11 billion a year within two years. This means that if all other services (read: voice) experience zero growth, data will still represent only 20 percent of the revenues of a company

that currently does \$50 billion a year total business.

Now you know why Internet backers talk about optical networking and wide-area Ethernet bringing "disruptive change" in the data markets. It's their only hope.

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Broadband Baby
SBC Nurses Project Pronto Through Infancy
By Kim Sunderland

Pat, pat, pat, pat, BURRRRPPPP!!! Ah, the rewarding sounds of trapped gas being released from the mouth of a babe.

While crude, this analogy helps describe Project Pronto, SBC Communications Inc.'s (www.sbc.com) \$6 billion baby for delivering broadband services. CLECs are watchful as the parent company coddles and comforts its prodigy, and they plan to stay nearby holding legal papers if there is a mess.

"CLECs have deep concerns about Project Pronto," says Jonathan Askin, general counsel of ALTS (www.altis.org). "Basically, we're concerned that SBC's proposal may severely curtail customer choice in voice and advanced services."

Why? Because SBC has filed with the FCC (www.fcc.gov) seeking a waiver of certain provisions of the conditions imposed on its merger with Ameritech Corp. (www.ameritech.com) in order to provide broadband--specifically asymmetric DSL (ADSL)--through Project Pronto. Among other things, SBC would install some 20,000 remote terminals that would allow it to extend fiber farther into the field, and then install DSLAMs in those terminals, Askin says.

"Any substantial reconfiguration of an incumbent's network could have a fairly substantial effect on competitors to deliver advanced services to almost any customer in that incumbent's area," says Robert McCausland, vice president of regulatory and interconnection for Allegiance Telecom Inc. (www.allegiancetelecom.com). "Regulators cannot overlook the incumbent's network plans because their deployment decisions will affect the ability of competitors to deliver DSL services."

CLECs are concerned that in SBC's waiver request, the BOC plans to control the line cards that are installed in the DSLAMs. This would mean that the CLECs couldn't install their own line cards and, therefore, would be beholden to SBC's equipment vendor of choice, Alcatel (www.alcatel.com).

"If SBC does deploy one particular make and model of equipment at the remote terminals and limits the types of equipment to one manufacturer," McCausland explains, "it thereby restricts a CLEC's ability to deliver all types of DSL services."

SBC's New Broadband Neighborhood Network

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Source: SBC Communications Inc. (www.sbc.com)

Not true, SBC says, claiming that Project Pronto will solve a major problem facing companies attempting to roll out DSL technology: The technology can only be deployed over copper wires and for a distance of not more than about three miles.

Project Pronto will run fiber optic cables to remote terminals that will act as extensions of the CO switches. Copper wires then will run from the remote terminals to businesses and residences, allowing deployment of DSL to more remote areas. To comply with the FCC's line-sharing requirements, SBC says CLECs can lease equipment from SBC to reach customers connected to the remote terminals, can resell SBC's DSL service, or can install their own remote terminals.

"The FCC has repeatedly held that it is not the role of the commission to select the 'best' or 'preferred' technology to meet customer demand," says Priscilla Hill-Ardoin, SBC's senior vice president of federal regulatory issues. Rather "in decision after decision, the FCC has placed the utmost priority on encouraging the rapid deployment of high-speed Internet access services. Our investment fulfills that goal by bringing DSL service to millions of consumers who can't currently receive it."

Hill-Ardoin calls the CLEC filings with the FCC "a calculated and anticompetitive ploy to delay SBC from offering consumers high-speed Internet service and [to] hamper our ability to compete effectively in the marketplace." SBC believes that the CLECs themselves will ultimately slow DSL deployment by charging that SBC's planned DSL network would create a new platform over which current competitor equipment would no longer work.

Meanwhile, Project Pronto continues to ramp up. "We are committed to building this network for customers," says Kristen Childress, an SBC spokeswoman, "and this extensive DSL rollout is on track with our goals and projections." At the end of 1999, Childress reports that 169,000 subscribers, both residential and business, were able to receive broadband services. At the end of March this year, SBC enabled 13 million homes and businesses to get DSL, she says, adding that it will be in some 300 new markets by the end of the year.

With the FCC being in the midst of field hearings to determine the current state of advanced services deployment across the United States, these announcements are good timing on SBC's part. The commission is particularly interested in whether such services are being deployed in inner cities and rural areas, and if not, what types of regulation might encourage such deployment. This month a hearing is scheduled in Lowell, Mass. The FCC's final two hearings are being held in June. A report is slated for a summer release.

In one meeting of the minds, many CLECs said that they support SBC's request to have the parent company own the remote terminals rather than its separate affiliate for advanced services. If SBC owns the terminals, its affiliate and other CLECs are entitled to unbundled access to the DSLAMs on a nondiscriminatory basis, Askin says.

Saralee Boteler, another SBC spokeswoman, says the separate subsidiary is required to behave like a data CLEC and absolutely cannot have any information that's not available to other data CLECs. "Indeed, it is not only legally, but literally, a separate subsidiary," she says. "It has to be, whether we want it or not."

The ILECs collectively have said it's outrageous for the CLECs to think they should have input into how and when SBC deploys high-speed Internet access. And they've also let it be known that the FCC has no authority to dictate how SBC or any other ILEC spends its own money and deploys its technology. Undeterred, ALTS has asked the FCC to hold a public forum this spring on the issues related to Project Pronto.

"Regulators can't allow SBC to rebuild its traditional monopolistic network," McCausland says. "They must ensure ILECs construct open network architecture that meets the tenets of the Telecom Act."

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SBC Plays Hardball With DSL Providers

Commerce

The FCC is studying the telco's Project Pronto, which would broaden the availability of high-speed access – but shut out competition.

By Aaron Pressman

In response to the frustratingly slow rollout of high-speed Internet access, **SBC Communications (SBC)** has laid out a \$6 billion plan called Project Pronto that would bring digital subscriber line service to about 77 million customers. While this sounds like good news, there's a catch: The project's design would effectively shut out rival DSL providers.

The Federal Communications Commission is now reviewing some of the knotty issues the project raises. The commission's quest: Find a way to balance SBC's and other local telcos' need to upgrade against the competition's need to use the Bell networks to reach customers.

There's no easy fix. "You are pitting the fastest and most efficient broadband rollout vs. monopolization of DSL and the loss of innovation," says Paul Glenchur, an analyst at Schwab Washington Research Group. "This could be a real struggle."

FCC officials are aware of the tension. The 1996 Telecommunications Act requires major carriers to give competitors use of their networks – but it also calls on the FCC to speed broadband deployment.

"If you look at Project Pronto in a vacuum, this is fabulous for broadband," says Staci Pies, deputy chief of the network services division of the FCC's common carrier bureau. "The problem is that it moves the bottleneck from the central office out closer to the customer, and it's a lot easier [for competitors] to colocate in the central office."

Normally, local phone companies run copper wire from customers' homes and businesses into hundreds of local central offices. With Project Pronto, those wires will terminate instead in thousands of neighborhood cabinets connected to central offices by fiber. The configuration will make DSL available to many more people than with the more typical network architecture.

Complicating matters is that Project Pronto appears to violate a previous SBC deal with the FCC. Last October, to win approval of its acquisition of Ameritech, SBC agreed to offer DSL through a separate affiliate that would be treated no differently than other DSL providers.

By February, SBC realized that Project Pronto's prebuilt cabinets that integrate DSL equipment with old-fashioned phone service capabilities might violate the merger conditions. So SBC asked the FCC to let it own the cabinets and lease access to DSL providers, including its affiliate.

The problem is that rival DSL carriers now compete with SBC using their own equipment located in central offices, and must connect to customers over unbroken copper connections. Project Pronto's thousands of prebuilt cabinets break the direct copper connection – and have no room for additional equipment from other carriers.

Dhruv Khanna, cofounder and general counsel of Covad Communications, says SBC's plan is illegal. "SBC is doing its usual foot-dragging," Khanna says. "The question is whether the law is the law, or whether the law is what SBC wants it to be to suit its purpose."

SBC contends its rivals have at least two options. They can lease access to the complete DSL capability contained in the new cabinets, or they can build their own neighborhood networks. Project Pronto will allow DSL connections for customers who live out of range of current offerings, SBC execs say.

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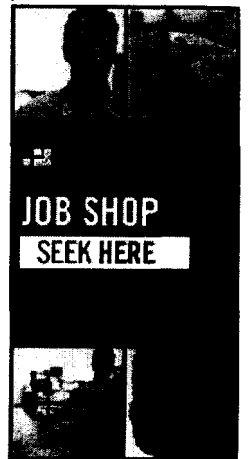
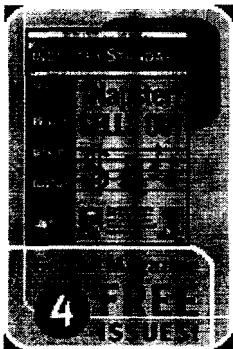
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Marian Dyer, a Washington lobbyist for SBC, contends that forcing the company to create an open platform for competitors' equipment in the cabinets would drive up costs and delay the program for years.

"If you are truly going to get advanced services for all Americans like the Telecom Act requires, the only effective and cost-efficient way is a shared platform," she says. "We are behind in this marketplace. We're in catch-up mode with cable modems, and they are unregulated."

It all adds up to a long, hot summer for the FCC. Says analyst Glenchur, "It's going to be quite a fight."

Accessing Customers

The Bells are ahead in the race to offer DSL service.

SBC Communications	301,000
US West	136,000
Bell Atlantic (BEL)	62,000
BellSouth (BLS)	49,000
Covad Communications	93,000
NorthPoint Communications	41,300
Rhythms NetConnections (RTHM)	20,000

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